



SPECIAL FUND-RAISING ISSUE: APM DRIVE SUPPORTS SCHOOL GOALS

Remarks from the Dean

The University's Kansas First campaign promises to be the most ambitious fund-raising effort the University has ever held. The School of Business also has set impressive goals related to upgrading our "premier learning environment."

We have an outstanding faculty, and the quality of students is improving every year, but we frankly need to improve the facilities that will make the KU School of Business a leading learning institution. Consequently, we will be looking for support in the upcoming campaign for a new building.

Consistent with today's finest schools of business, leading-edge technologies, advanced teaching facilities, increased space, and learning laboratories are crucial to our plan for achieving excellence. Imagine the impact on the School's reputation that a state-of-the-art APM facility would create.

I applaud Kent McCarthy and all who support the APM Program for your goal of contributing significantly to upgrading our learning environment. We are greatly appreciative of his and your support. As the next big step in his support, you will read in this issue of the *APM Quarterly* that Kent has generously offered to match donations for upgrading our learning environment.

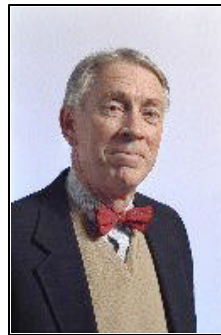
Thanks for your support for APM and the School in the past, and thank you in advance for your efforts to help us continue to develop our programs, contributions, and reputation.

William L. Fuerst
Dean and H.D. Price Professor of Business
KU School of Business

Contributions

As mentioned in our last newsletter, this quarter's focus is on fundraising. We know that you who have benefited from APM will be interested to read about what we are doing in this area, since charitable giving provides the foundation and continues the tradition started by Kent McCarthy when he began the Applied Portfolio Management Program.

Hall Gift Funds Joy Professorship



The Hall Family Foundation recently contributed the largest single gift to a college or university in Kansas history. The \$42,500,000 gift will be allocated to four areas: a new life sciences research center at the KU Medical Center, facility improvements for the Hall Center for the Humanities, a new building at the

Edwards campus, and \$500,000 to the School of Business to establish the O. Maurice Joy professorship. Professor Joy was a member of the finance faculty for more than three decades and held the Joyce C. Hall Distinguished professorship. The gift to the School of Business qualifies for state matching funds, which effectively gives the school \$1,000,000.

APM congratulates Professor Joy on this honor. He contributed significantly to the educational careers of many of our readers.

Kansas First Sets Lofty Goals

The Hall gift was a result of KU's third major fundraising campaign, known as Kansas First. The campaign officially opens in September; however, work has been going on behind the scenes for several months that will steadily move KU toward its \$500 million goal and have the effect of increasing the university endowment by 42%. Our dean, Bill Fuerst, has been an active participant in this effort, on behalf of the Business School.

APM's Potential Role

Continuing APM's philanthropic tradition, we would like APM to be a part of this Campaign to elevate KU and the School of Business. As we have stated in the past, it is the intention of APM to raise funds and the portfolio value to enable us to donate funds to build a new business school. As costs have increased, we have decided to begin with the more feasible goal of being a lead donor in dramatically improving the school's facilities – whether this entails building on a new site, or remodeling our existing building.

We will continue to fund a men's basketball scholarship. From reader response, it is safe to say that we are all huge KU basketball fans, and lend our support in that manner, however, it would be difficult for any of us as individuals to make a significant financial contribution to support the team. When you contribute to APM you *are* making a difference and have the opportunity to support a starting player each season. Other plans that we have for APM include supporting the football team and the APM Minority Scholarship.

The McCarthy Match

We are currently developing plans to solicit corporate donations from organizations that we feel will benefit directly from program. Kent will match donations made by these organizations on a dollar-for-dollar basis up to \$50,000. Kent also will match APM friend and alumni contributions to the fund on a dollar-for-dollar basis. As we have mentioned in our past newsletters, many companies match one-for-one, and sometimes two-for-one. This provides a great way to leverage your contributions. A \$500 contribution quickly becomes \$1,500 with the matching funds. We also are hoping to recruit a company that will join us in this matching effort, so with the help of your employer, we may soon be able to turn \$500 into \$2,000.

Is the Timing Right?

Why contribute this year – with the market down and questions about the economy? The reason to join in now is that we have the momentum of the Campaign behind us. We want to join in the Campaign and be recognized as a high-impact entity. After witnessing Kent's efforts for several months, I can say that the amount of time and energy that he has put into the class is realistically double the value of the \$250,000 contribution.

A Plan for Giving

There are various ways to plan your contribution to fit your needs. You can make a pledge to fund your contribution by the end of the year, or spread it over four years. Also, don't forget that you can contribute appreciated stock and receive a tax deduction for the current market value of the stock. You pay no tax on the capital gain, and then receive the tax benefit of the charitable contribution. If you are not up to this yourself this year, maybe you are able to influence someone who is in the position to give and is looking for great cause. This is an active gift. It does not just sink into a pool of funds – you will know what is happening with this gift. The cash is actively used as a learning tool.

New Contributions

We have a new pledge to gift appreciated stock from one of the long-time friends of APM—**Brad Shoup** of Dallas. Brad is a KU civil engineering alumnus who later got an MBA from MIT and went to work for T. Boone Pickens during Pickens' heyday in the 1980's. We will have more on Brad in an upcoming newsletter. Brad may be dropping in to one of our fall classes to discuss corporate governance, or the oil and gas industry.

APM Fall Party

We are planning an APM gathering for September 8th that coincides with the UCLA football game and the official kick off of the Kansas First Campaign. We will have more details soon, but look forward to the perfect opportunity to get together with old friends. We promise an interesting time, which may include some special well-known guests and some of our high-profile guest speakers. More details regarding this celebration will follow soon. One of the purposes of this gathering will be to honor the alumni and friends who have contributed to APM.

Go Jayhawks!

We recently learned that the recipient of last year's APM Scholarship was Kirk Hinrich. Kirk is a junior guard from Sioux City, IA. He enjoyed a great season. He averaged 6.9 assists per game and set a Kansas record with 50.5% success rate with three-point shots. He earned All Big 12 second team honors from the Associated Press.



Kirk was unavailable for comment; however, we spoke with team assistant Jerod Haase who had the following comments: "The men's basketball program certainly appreciates the generosity of the Applied Portfolio Management class. As a former student athlete and business school graduate, I want to thank Kent McCarthy for his contributions to the business school as well as the athletic department."

APM is proud to be able to support the program and happy to know that Kirk Hinrich received the scholarship. We'll be cheering him on this year.

APM 2001 Returns:

2nd Quarter: 3.2% Year-To-Date: .9%

Performance

The portfolio ended the 2nd quarter with the dollar value down 10.4%, to \$352,332. However, a withdrawal was made to cover start-up expenses for the APM office. Taking this into account, the portfolio was up 3.2% from last quarter. This is in comparison to the 2nd quarter S&P performance of 13.78% and the Dow of 9.23%. The winners for the quarter were American Italian Pasta (for the third consecutive quarter), up 45% for the quarter and 73% YTD. Barnes & Noble was up 15% for the quarter, with Cerner up 22%, rebounding from the quarter end downturn.

Portfolio Overview

Alumni

Name	Class	Stock
Robert Tracy	Fall '98	SLOT
Chris Rasmussen	Fall '98	BKS
Joe Searle	Fall '95	CERN
Betsy Rowe	Fall '95	DUSA
Greg Greenberg	Spring '96	SPCT
Bart Baldwin	Spring '00	PG
Max Myers	Fall '97	AETH
Guan Hwee Lim	Spring '00	SV

Percent of Portfolio

26

Although our alumni percentage is down from last month's 30%, this is not a trend. Because of changes in the telecom sector, we sold some of our alumni picks at the end of the quarter. We finally threw in the towel and gave up on LVLT. We also let go of Q. The telecom sector continues to struggle, and for some of our stocks it was time to take our losses and move on to better opportunities. Brian Murray has provided us with a new pick, RDN, that you will read about in our third quarter newsletter. We are looking forward to a new pick from Jessica Reuss. Max Myers also has recommended selling AETH. Our CIMBA students from the April class in Italy are also working on a stock for us.

On The Street

Alumni	Company	Location
Jeff Brueggemann	Jayhawk Capital	Prairie Village
Fred Coulson	Morgan Stanley	New York
Trevor Cox	Koch Industries	Houston
Gene Diederich	A.G. Edwards	Kansas City
Dan Drake	TalMOR Capital	Boulder
Greg Greenberg	Olde	Kansas City
Mark Hensel	Enron	Wichita
Scott Jones	Interstate Securities	Atlanta
Paul Maxwell	Sal. Smith Barney	New York
Matt Michaelis	Greenhill & Co.	New York
Matt Moore	Paine Webber	Denver
Jeff Morrison	Commerce Bank	Kansas City
Brian Murray	K.C. Life	Kansas City
Max Myers	Western Resources	Topeka
Shane Parr	George K. Baum	Kansas City
Todd Preheim	Sprint (M&A)	Kansas City
Jessica Reuss	Bank of America	Orlando
David Reynoldson	George K. Baum	Kansas City
Josh Selzer	Iron Horse	Kansas City
Ryan Sprott	C.S. First Boston	New York
Jeremy Tasset	A.G. Edwards	Lawrence

Heard On The Street

SPCT - Greg Greenberg recommends SPCT as a buy – downside is limited, with a strong balance sheet – no debt. Backing out cash, you are paying \$3.85 for a business generating \$16 in sales, with a long-term growth rate well above 15%. Greg's long term price target is \$35 - \$45 . . . interesting.

CERN – Joe Searle reports that Cerner is still running at the top of the customer satisfaction polls. Apparently, the parking lot problems are fixed, and Cerner is right back up there as one of our winning stocks.

BSX –Paul Koch believes that BSX looks to be fairly valued at the moment, following the market's downward assessment of them a year ago. The market had punished them a year ago for a series of bad news and bad luck and run-ins with regulators and the courts. We bought at \$15, after they had crashed from \$30. Now BSX is in the upper teens.

GDT – Guidant has suffered a series of setbacks, including problems with regulators and court problems, according to **Paul Koch**. Guidant shares ranged from \$47 - \$54 over the winter months of late 2000/early 2001. We bought at \$41 after the market had punished it for missing first quarter 2001 earnings forecasts. The price quickly slid to mid-\$30's after being chastised by a member of the FDA Advisory group for being overly aggressive in disseminating information about their new Congestive Heart Failure (CHF) device, and for bad news concerning a lawsuit regarding a defective device.

Last week this FDA Advisory panel rejected Guidant's application to move on with their CHF device, citing the failure of the device to satisfactorily achieve all the objectives that Guidant had set out for it. This was another shock, sending Guidant shares down to the mid-\$20's. This news puts Guidant well behind MDT in the race to develop and market an effective CHF device. Guidant's earnings for 2001/2002 have been revised downward following this series of bad news and bad luck.

Two Views: 1. GDT is at the bottom after paying for its mistakes, or 2. GDT's management has blown it by neglecting their other business lines in the effort to beat MDT in the race for the CHF device.

Blue Chip Reinvention

APM acquired Proctor & Gamble Co. based on alumnus **Bart Baldwin's** recommendation. The stock is a value play that we expect will turn profitable within two or three years.

Proctor & Gamble Co. (PG) is a major player in the Household Product Industry. PG competitors include behemoths like Colgate-Palmolive and Kimberly-Clark; however, in spring 2000, PG's own worst enemy was PG, for failing to meet investor expectations. The company lost 45% of its market capitalization under CEO Durk Jager—the stock went from \$117 to the mid-\$50's.

A.G. Lafley replaced Durk Jager in June 2000 and by September, Lafley revised long-term growth targets to 10% plus for earnings and 4 to 6% for sales. Since Lafley took control, PG has met analyst expectations and is continuing a long road for gaining market capitalization. Lafley based his turnaround goal on four pillars: driving costs down, improving asset allocation efficiencies, narrowing the portfolio of products, and getting sales volumes growing again. We will mention a couple of changes due to these four pillars.

Lafley, realizing the advantages of cooperating with others, entered into partnerships with Coca-Cola Co., General Mills, and Archer Daniels Midland Co. The partnerships are likely to influence sales as well as asset utilization.

The above partnerships are not the only change for the blue chip company. In order to view consumer behavior PG is planning to enter homes around the world to video people doing everyday activities. These videos will be stored on the Internet and shared with some partners and company executives. One realization these videos gave PG is making products easier for new parents to use while they care for their young children. The video of a parent in Thailand holding a child in one hand while trying to cook confirmed the need for easier to use products. The company aggressively is taking advantage of the Internet's ability to ease procurement needs and remove supply chain inefficiencies.

Investors beware: PG faces currency risk among other risks from operating in global markets.

Trading Suggestions

To make suggestions please follow the following guidelines.

1. Email the ideas to Denise:
2. dbergin@ku.edu
3. One page format with the following three defined sections: 1) Company Profile, 2) Fundamentals, 3) Analysis and Conclusion.
4. Include email address and phone number where current students or teaching assistants can contact you.

Visit us at <http://eagle.cc.ku.edu/~prtfolio> to update your contact information. We would like to hear from you, to reacquaint ourselves with past students, speakers and supporters. You can also email Kent at the address (listed above) to let us know what you have been up to. We are updating an email database for Kent; so email prtfolio@eagle.cc.ukans.edu as early as possible.

Thanks a lot for your tips and advice on these picks!

A Quick Note of Gratitude

Alumnus **Bart Baldwin** recently visited the Italian American Pasta Co. in Verolanuova, Italy. IAPC is a subsidiary of one of our stocks, American Italian Pasta Company (PLB). The IAPC plant is under an expansion phase to meet future growth—despite this construction the plant appeared neat and well run. Bart would like to thank and recognize Matt Duffield, Senior VP of International Operations and Giovanni Bruschi, Direttore di Stabilimento for their time.



Message from Denise

Thanks to Dean Fuerst and Jerod Haase for their comments made on behalf of APM. This is an exciting time for us. We are looking forward to a great fall semester with fascinating guest speakers and talented students.

Some of the future events that we have planned for the fund include possibly renting a suite at the football stadium for an APM get-together. We are also interested in contributing a block of football tickets to a youth organization, such as The Boys and Girls Clubs.

Our fund will continue to support the men's basketball scholarship and will also work harder to develop our minority scholarship opportunities. The other great interest that APM has is to become more involved with the School's international programs. Kent has taught twice in Italy and now, in addition to great networking in the U.S., APM has a large group of international alumni.

Looking forward to speaking to many of you personally as we begin this fund drive. Also, looking forward to meeting many of you in September. Details of the September party will follow in a few weeks. Anyone who is interested providing input, or otherwise helping organize this event, please email Denise at dbergin@ku.edu.

Thank you all for your contributions!

If you would like to make a contribution to the portfolio, please mail your donation to:

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